



**Audit Team**

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M E M O R A N D U M

DATE: August 24, 2023

TO: Mayor Thao, City Council President Fortunato Bas, Members of the City Council, City Administrator Johnson, City Attorney Parker, and Oakland Residents

FROM: City Auditor Courtney Ruby, CPA, CFE

SUBJECT: **Business Tax Refunds Audit FY 2018-19 through FY 2021-22**

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SUMMARY

The City of Oakland (City) has a responsibility to ensure business tax overpayments or payments made in error are refunded to taxpayers accurately and timely.

In accordance with the Oakland Municipal Code (O.M.C. 5.04.540) the Office of the City Auditor (City Auditor) conducted an audit of business tax refunds for accuracy and appropriate approval, for the fiscal year 2018-19 through fiscal year 2021-22.

The audit found, based on a sample, business tax refund requests were properly approved, requested within the required 12 or 15 months of the taxpayer's original tax payment, approved based on adequate documentation, properly calculated based on relevant tax rates, and accurately recorded in the City's financial management system. Additionally, the audit reviewed access rights to HdL, the City's database for tax collections, and found the Finance Department's Revenue Management Bureau (Bureau) staff's access rights to HdL were commensurate with job responsibilities. However, the audit did find 36 percent of sampled approved requests were processed outside of the six-month goal established by the Bureau.

BACKGROUND

Anyone operating or doing business in the City of Oakland is required to file and pay an annual business tax, including anyone renting property (residential, commercial, and industrial). Most City business owners are required to pay business taxes based on gross income receipts. Tax rates are

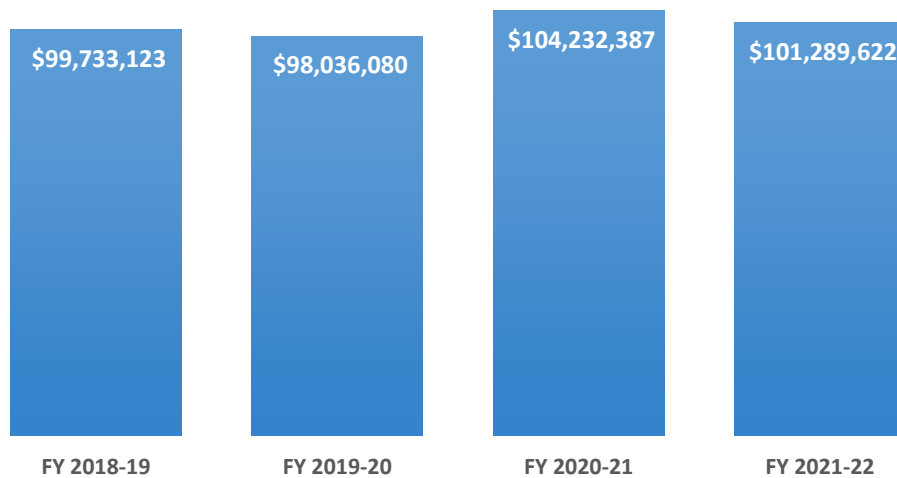
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applied dependent on business classification. Taxes are paid annually, on or before March 1st. Late payments are subject to penalty and interest assessments.

The City’s Finance Department consists of five bureaus, one of which is the Revenue Management Bureau. The Revenue and Tax Administrator manages all aspects of the Bureau, including business tax collections and refund approvals.

Exhibit 1 shows revenue from business taxes between fiscal years 2018-19 and 2021-22. Annual business tax revenue ranged from \$98 million in fiscal year 2019-20 to \$104 million in fiscal year 2020-21.

**Exhibit 1: Business Taxes Collected from Fiscal Years 2018-19 through 2021-22**



Source: Oracle, City’s Financial System

The City’s Municipal Code (Municipal Code) permits business owners to request a refund for business taxes illegally or erroneously collected. Additionally, in January 2020, City Council passed an ordinance amendment providing a provisional tax exemption or reduction for certain owner-occupied residential rental properties under certain conditions.<sup>1</sup> As such, eligible owner-occupied residents may qualify for a business tax refund if submitted within 15 months from the date the tax was paid.

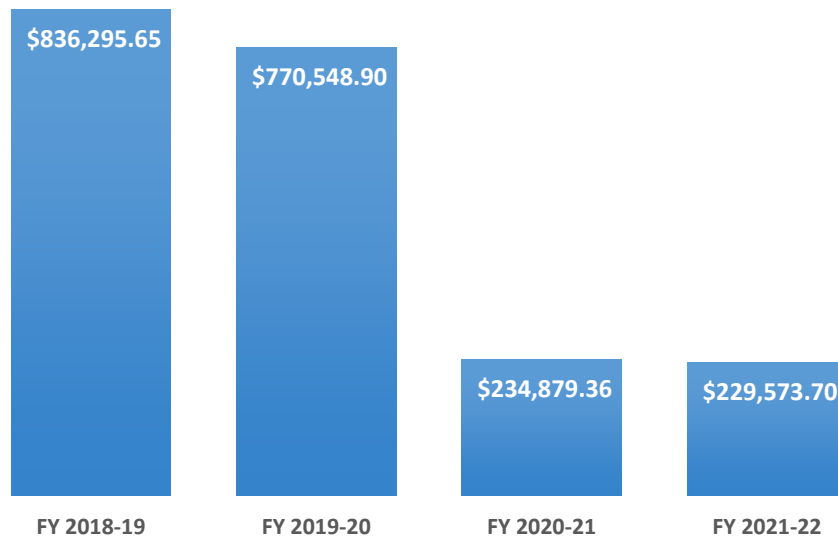
A taxpayer may request a refund if the request is made within 12 months from the date of the business tax payment for illegally collected taxes, and 15 months for erroneously collected taxes. Bureau staff reviews the requests, and related documents and calculations provided by the taxpayer to support the claim for a refund. All refunds require the Revenue and Tax Administrator’s signature, noting approval. Refund requests greater than \$25,000 also require the Finance Director or the

<sup>1</sup> [Oakland City Council Ordinance No. 13579. C.M.S.](#)

Assistant City Administrator’s signature. Once the refund request is approved, it is processed, and a refund check is issued to the taxpayer.

Exhibit 2 shows the City paid over \$2 million in business tax refunds over the last four fiscal years, with refunds sharply declining over the years.

### **Exhibit 2: Business Tax Refunds Approved from Fiscal Years 2018-19 through 2021-22**



*Source: Prepared by auditors using data provided by Finance staff*

Over the years, the Bureau has implemented various process improvements reducing the number of business tax refunds. Examples include implementing a taxpayer system that automatically computes taxes owed based on input from the taxpayer, revising taxpayer-facing documentation and instructions, and revising internal policies and procedures.

## **AUDIT RESULTS**

### **Between Fiscal Years 2018-19 through 2021-22, The Audit Did Not Identify Any Significant Issues with Business Tax Refunds**

All business tax refunds sampled were:

- Properly approved.
- Requested within 12 or 15 months of the taxpayer’s original tax payment.
- Approved based on adequate documentation.
- Properly calculated based on the relevant tax rates.
- Accurately recorded in Oracle, the City’s financial management system.

Additionally, the audit reviewed access rights to HdL, the City's database for tax collections, and found that Bureau staff's access rights to HdL were commensurate with job responsibilities.

**Finding: The Revenue Bureau Processed 36 Percent of Selected Refunds Outside of Its Timeliness Goal**

The Bureau has a goal of starting the review of refund requests within 30 days of receipt and processing requests within three to six months.

The audit took a sample of 22 approved requests and found that 14 requests, or 64 percent, were processed within six months, while eight, or 36 percent, took longer than six months. Five of the eight requests that were processed outside the six-month goal took longer than 30 days from receipt to begin the review process. Approved refund amounts processed outside the six-month goal took anywhere from seven to 18 months to process and approved amounts ranged from \$1,869 to \$411,124.

According to the Bureau, business tax refund requests can take longer than six months for various reasons including, the complexity of the review, need for City Attorney's review, and request for the taxpayer to submit additional documents.

Given that businesses are owed overpayments or erroneously calculated business taxes, the Bureau should process requests within the established six-month goal.

**Recommendation:**

- The Bureau and City Administration should continue to pursue process improvements aimed at consistently processing refunds within six months.

## STATEMENT OF COMPLIANCE WITH AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## AUDIT OBJECTIVE AND SCOPE

The purpose of this audit was to determine whether business tax refunds were processed in accordance with the Oakland Municipal Code and department policies and procedures. The scope of the audit included business tax refunds processed during fiscal year 2018-19 through fiscal year 2021-22.

## METHODOLOGY

In conducting this audit, we:

- Assessed internal controls for reviewing and processing business tax refund requests.
- Reviewed Finance Department's policies and procedures for processing business tax refund requests and relevant sections of the Oakland Municipal Code.
- Interviewed Bureau staff and management.
- Tested a sample of 38 refund requests totaling \$1.5 million. Of the items tested, 22 requests were approved totaling \$1,360,397 and 16 requests were denied totaling \$138,615.
- Verified that refunds sampled were approved prior to the issuance of the refund check, supporting documentation was sufficient, and the refund calculation was accurate.
- Confirmed refund requests were submitted within 12 or 15 months of the taxpayer's payment date.
- Verified that refund amounts were accurately recorded in Oracle.
- Reviewed the timeliness of business tax refunds processed.
- Reviewed access rights to HdL, the City's database for tax collections, to determine whether permissions granted to Bureau staff were commensurate with job responsibilities.

## CITY ADMINISTRATION'S RESPONSE

The Department of Finance agreed with the audit results and the recommendation. The department's recommendation implementation plan follows this memo.

## ACKNOWLEDGMENT

I want to express our appreciation to the Department of Finance's Revenue and Management Bureau for their cooperation during this audit and commitment to improving practices.



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**CITY OF  
OAKLAND**

**Office of the City Auditor**

**Business Tax Refunds Audit FY 2018-19 through FY 2021-22**

Department of Finance's Recommendation Implementation Plan

City Auditor's Recommendation	Management Action Plan	Responsible Party	Target Date of Completion
The Bureau and City Administration should continue to pursue process improvements aimed at consistently processing refunds within six months.	The Finance Department agrees with the recommendation and will work to make process improvements and enhancements to meet the 6-month timeframe or revise the refund timeframe.	Director of Finance and Revenue and Tax Administrator	June 2023

Oakland's City Auditor is an elected official and works for, and reports to, the residents of Oakland. The Auditor's job is to provide oversight to the City's activities. The Auditor has the authority to access and audit City financial and administrative records, plus the policies and procedures of all City agencies and departments.

To make sure this work is done objectively and without bias, the City Auditor is not connected to any other City department and has no day-to-day financial management or accounting duties for the City of Oakland. This autonomy allows for independent analyses, ensuring tax dollars and other resources serve the public interest.

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